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No. 95-136

IN THE

Supreme Court of the United States

OCTOBER TERM, 1995

KELLEY COMPANY, INC.,

Petitioner,

v.

RITE-HITE CORPORATION ET AL.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

REPLY TO BRIEF IN OPPOSITION TO THE PETITION FOR A WRIT OF CERTIORARI

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Instead of addressing the issues raised in Kelley's* petition for which it has no response, Rite-Hite seeks to rely on procedural questions, arguing that a case presenting issues of patent damages does not meet this Court's criteria requiring "special and important reasons". At the same time, Rite-Hite says that Kelley has "adopted Judge Nies' [dissenting] opinion as its text", but then makes no effort to show how Judge Nies' strong dissent is misplaced.

Kelley has, Rite-Hite notwithstanding, presented a compelling showing that this case raises "special and important issues" requiring this Court's resolution.

* Notation required by Rule 29.1: Kelley Company, Inc. has no parent or subsidiary companies.

In this case, Kelley is not alone in insisting that the Federal Circuit's majority opinion unlawfully and impermissibly expands patent rights, even to the point of exceeding the constitutional basis for the patent system. Judge Nies makes the very same points. And the majority, struggling to rationalize its decision, laments as well that this Court has provided "no definitive ruling on the proper scope of damages to redress lost sales of diverted products" (App. 14a) — a plea by the majority itself for guidance from this Court.*

Under these circumstances, Rite-Hite's statement that Kelley's petition does not present "special and important reasons" for granting the petition has a hollow ring. Those "special and important reasons" are spelled out in detail not only in Kelley's Petition and the dissenting opinion, but in the majority opinion as well.

I. Unanswered Is Kelley's Showing That The Majority Opinion Of The Court Of Appeals Impermissibly Expands Patent Rights

One of the "special and important reasons" for granting the petition in this case is that the decision of the Court of Appeals impermissibly expands patent rights beyond the scope of the invention patented. In this case, the ruling of the Court of Appeals expands damages for patent infringement to competitive injury broadly so long as it is "reasonably foreseeable ... in the relevant market, broadly defined" (App. 11a). In this case, the Court of Appeals has protected Rite-Hite's market not only in the patented products but also in its products admittedly not pro-

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* Rite-Hite seems to suggest that because this is a patent case, the Federal Circuit should be left alone in developing the patent law. That argument has already been laid to rest in *Cardinal Chemical Company* v. *Morton International, Inc.*, 508 U.S. ___, ___, 113 S.Ct. 1967, 1971 (1993) where this Court flatly rejected Rite-Hite's premise that the Federal Circuit is a court of last resort in patent cases. Indeed, as this Court concluded in *Cardinal*, the decisions of the Federal Circuit are "a matter of special importance to the entire Nation". For that reason, where, as here, the Federal Circuit perceives a lack of guidance from this Court and its decision affects — and indeed expands — damage awards in practically all patent cases, the grant of certiorari becomes all the more important.

tected by the patent-in-suit. Thus, the majority decision expands the patentee's protection to an entire market in which the patented product comprises just a small part.

Not only is the majority decision in this case allowing a patent to protect an entire market as distinguished from the invention the patent covers unprecedented, it conflicts with principles this Court settled long ago. A patent cannot be used to derive profits from unpatented goods (*Motion Picture Patents Company* v. *Universal Film Manufacturing Company*, 243 U.S. 502, 517 (1917) and *Mercoid Corporation* v. *Mid-Continent Investment Company*, 320 U.S. 661, 664-65 (1944)) or to exploit another product covered by a separate patent (*Ethyl Gasoline Corporation* v. *United States*, 309 U.S. 436, 459 (1940)). The Federal Circuit's decision here stands in stark contrast to those settled principles; it affords a patentee a protected market (a) whether or not the patentee sells any products within that market, or (b) whether or not the patentee's products are covered by the patent-in-suit.

The error in the Federal Circuit analysis in adopting a test of reasonable foreseeability, and the consequences of that analysis, are aptly shown by a case decided by the Court of Appeals for the Ninth Circuit, namely *Velo-Bind, Incorporated* v. *Minnesota Mining & Manufacturing Company*, 647 F.2d 965 (9th Cir., 1981). In *Velo-Bind*, the patentee claimed lost profits on unpatented consumables used with the infringing binding machine — losses that were clearly reasonably foreseeable. Nonetheless, the Court of Appeals for the Ninth Circuit rejected damage claims for lost sales of those unpatented consumable goods, pointing out that the patentee was in effect asking the Court to give *de facto* recognition to an illegal tieing relationship. The Court refused to allow an award of damages based on lost profits that were reasonably foreseeable because the goods on which profits were lost were *not* covered by the patent-in-suit. The majority decision here reached precisely the opposite result. By focusing the test on reasonable foreseeability and not on the scope of the patented

invention, the Federal Circuit has allowed an award of damages based on unpatented goods, just as the dissent insists.

Rite-Hite does not dispute that the majority ruling expands the scope of its protected market, correctly characterizing the majority decision as extending to any injury that a patentee may suffer by reason of infringement, irrespective of whether the patent owner sells a product embodying the patented invention. Rite-Hite attempts to justify the majority decision by arguing that *any* damages a patent owner can prove are recoverable under the analysis of the majority (Rite-Hite Opposition, p. 18):*

> "...patent damages should reflect the injury that the patentee suffers from violation of that right to exclude others."

On that point, the majority was unmistakably clear, concluding that whether a patentee sells its invention is "not crucial in determining lost profits" (App. 14a). That is a drastic — and unwarranted — change in settled legal principles that have been in force for 100 years. For example, this Court, in *Crosby Steam Gage and Valve Company* v. *Consolidated Safety Valve Company*, 141 U.S. 441, 452 (1891), concluded that an award of damages based on lost sales turns on the patentee's use of his patented invention in the marketed goods.**

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* Rite-Hite says that the broad-based damage award is a proper remedy for Kelley's breach of Rite-Hite's right to exclude others. Rite-Hite's argument overlooks the fact that its right to exclude others is protected by the remedy of an injunction — a remedy available to a patent owner regardless of whether it chooses to commercialize the invention of the patent-in-suit. Rite-Hite also complains that Kelley's position would preclude it from damages other than a reasonable royalty, at least until an injunction is obtained. The law provides a vehicle to address that concern. A patentee always has the right to apply for a preliminary injunction *pendente lite* if it has concerns about the length of time necessary to establish its rights (*Smith International, Inc.* v. *Hughes Tool Company*, 718 F.2d 1573, 1578 (Fed. Cir., 1983)). But Rite-Hite never sought that remedy.

** It is of no avail to Rite-Hite that *Crosby* dates back over 100 years. The present language of Section 284 of the Patent Statute on which Rite-Hite relies is reenacted statutory language, warranting the inference that Congress intended to adopt the earlier established judicial interpretation (App. 43a), just as this Court concluded in another context in *General Motors Corporation* v. *Devex Corporation*, 461 U.S. 648, 653-54 (1983).

The Federal Circuit itself, up until its decision in this case, has limited damages in the form of lost profits to those cases in which the patentee sold products embodying the invention (*Panduit Corp.* v. *Stahlin Bros. Fibre Works, Inc.*, 575 F.2d 1152, 1156 (6th Cir., 1978); *State Industries, Inc.* v. *Mor-Flo Industries, Inc.*, 883 F.2d 1573, 1578 (Fed. Cir., 1989)).

Thus, the majority decision of the Federal Circuit, in refusing to limit lost profits to those goods made by the patentee which are covered by the patent-in-suit, has made bad law and bad policy. And, the Court of Appeals has approved a result "at war with virtually every policy consideration in this area of the law" (*Aro Manufacturing Co., Inc. v. Convertible Top Replacement Co., Inc.*, 377 U.S. 476, 510 (1964)).

II. *The Majority Decision Conflicts With The Purpose Of The Patent Laws To Stimulate The Introduction Of New Products*

Not only does the majority decision here conflict with this Court's decision in *Crosby*, it proceeds on a premise contrary to the constitutional purpose underlying the patent system. As Judge Nies noted in her dissent, the patent laws of this country were designed to promote the public benefit by rewarding the patentee who makes innovative new products available to the public, either through the patentee's own efforts or the efforts of another authorized to make and sell the invention to the public (*Bement & Sons* v. *National Harrow Company*, 186 U.S. 70, 90 (1902); *Woodbridge* v. *United States*, 263 U.S. 50, 55-60 (1923)). That purpose has been furthered by the law for over 100 years, limiting the availability of lost profits damages to those who made their patented inventions available to the public. Those who chose not to practice their invention were limited to a reasonable royalty as compensation for damages for infringement.

For no apparent reason, the Court of Appeals, in the majority decision in this case, has abandoned that precedent. Instead of encouraging patentees to promote the public benefit by introduc-

ing new products, the Court of Appeals has, in the words of the dissent, provided a "disincentive" (App. 62a) to patentees who commercialize their inventions. The earlier policy was, as the dissent observes, demanded by Article I, Section 8 of the Constitution and compelling precedent from this Court.

Rite-Hite notwithstanding, the policy of withholding lost profits from those who choose not to commercialize their inventions does not conflict with the Congressional intent of 35 U.S.C. § 271(d)(4). That section of the statute merely precludes the denial of relief for infringement on the ground that the patentee has refused to license or use his invention. It has nothing to do with whether the proper remedy is damages in the form of lost profits or a reasonable royalty.

In sum, Judge Nies was absolutely correct in concluding that an award of profits for lost sales of products other than those covered by the patent-in-suit provides a disincentive for a patentee to introduce to the marketplace products embodying his invention — a violation of the constitutional basis for the patent system. That is another "special and important" reason why this Court should intervene.

III. *Also Unanswered Is Kelley's Showing That The Majority Decision Enforces A Patent Without Affording An Opportunity To Challenge Validity*

In the Petition, Kelley showed that Judge Nies was right in concluding that the majority decision of the Court of Appeals enforces Rite-Hite's separate patents on the ADL-100 truck restraints without ever subjecting those patents to judicial scrutiny. The majority attempts to rationalize its award of lost profits on the "unpatented" ADL-100 truck restraints which form the bulk of the lost profits award on the theory that those restraints could not be determined to be non-infringing substitutes for the technology covered by the patent-in-suit because the ADL-100 restraint was separately patented and, hence, unavailable to Kelley.

The dissent criticizes that conclusion, and rightly so. Kelley, because it was never charged with infringement of any other Rite-Hite patent, never had standing to challenge the validity of such other patents under the controlling authority of *Altvater* v. *Freeman*, 319 U.S. 359, 363-65 (1943) and *BP Chemicals Limited* v. *Union Carbide Corporation*, 4 F.3d 975, 978 (Fed. Cir., 1993). As the dissent points out (App. 67a), a "clearer denial of due process is rarely seen".

Rite-Hite simply defaults on that argument in its entirety. It ignores this Court's holding in *Altvater*, and says, without any authority, that Kelley had clear standing to challenge the validity of the other Rite-Hite patents.*

CONCLUSION

The majority of the Court of Appeals for the Federal Circuit has drastically rewritten the law on patent damages. Kelley's Petition raises several fundamental flaws in that decision. Kelley's Petition seeks review by this Court; the issue of patent damages is one of national importance and, thus, demands a coherent, rational interpretation of the law. This Court should act here to ensure that purpose.

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* Rite-Hite misrepresents the record in arguing that Kelley stipulated to the validity of the separate patents during the trial (Rite-Hite Opposition, p. 19, n. 14). Appended hereto as a supplemental appendix are the two pages of the trial transcript relied on by Rite-Hite in support of that assertion, showing that Kelley stipulated only that the Rite-Hite patents embraced the ADL-100 restraints; it never once agreed that the patents were valid.

Respectfully submitted,

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SUPPLEMENTAL APPENDIX

patent. Now you understand that my references or anyone's references here to the 847 is a shorthand for patent number 4,373,847, correct?

A. I would have to look at the patent. I don't remember the patent number.

THE COURT: He agrees. Mr. Church will stipulate to that, right?

MR. CHURCH: Stipulate. The tone of your voice, I think I should.

THE COURT: I am not stipulating you out of Court.

Q. I am talking about the patent embodied in the MDL 155 Dok-Lok, correct?

A. The MDL-55.

Q. I said the MDL and the MDL 155 Dok-Lok, correct?

A. The MDL-55.

Q. Oh, I'm sorry. Thank you. Now you testified yesterday that the ADL-100 was also patented, correct?

A. Yes, it is.

Q. And the shorthand for the ADL patent is '259, correct?

A. I don't know what the numbers are, but I believe there's more than one patent that covers the ADL.

MR. GING: Well, will we stipulate, counsel, the '259 patent is one of the patents that covers the ADL?

MR. CHURCH: I will let Mr. Anderson tell you

is completely bloat their claim by sneaking in other patents that don't belong in this case. And the net effect is a multi million dollar claim, when this case should be tried in the hundreds of thousands of dollars.

MR. CHURCH: I would like to say a couple of things. First of all, I would like to read from your findings of fact. He says that's the ratchet and pawl. That's the invention.

THE COURT: Wait. The Court of Appeals, do we have the printed copy of the District Courts? I need the printed copy of the District Courts.

MR. CHURCH: I have one right here. We can get a Xerox of that.

THE COURT: The printed copy of the Court of Appeals. The original of this Court.

MR. CHURCH: I think Mr. Ging, Your Honor, is entitled to make his legal arguments, but on the factual level why don't we just stipulate that the ADL-100 is covered by the patents issued by Rite-Hite Corporation, but they are different than the 847 patents that were asserted in this suit. Then we don't have to go through it with this witness. I think if you have had a chance to read our briefs, you will know that we don't think very much of Mr. Ging's legal arguments.

MR. GING: I will accept your stipulation, coun(sel.)